

PERSPECTIVE

Reflections on the “Old” Economy, “New” Economy, and Services

P.W. DANIELS

ABSTRACT Economic competitiveness now has less to do with new materials than with new ways of producing, utilizing, and combining diverse knowledges. It is branded as symptomatic of a “new” economy and is often juxtaposed against the “old” economy. As accelerating technological change has greatly increased the volume and quality of the information available to organizations, to firms, and to individual employees, it is asserted that the economy has become more “new” than “old.” But this is predicated on the assumption that there is a “new” economy and that it is somehow distinguishable from the “old.” This paper explores the basis for this dichotomy and whether it really adds anything to understanding contemporary economies and their ongoing development. It will be argued that it is more useful and constructive to examine the economy through a lens dominated by service industries that are now the key drivers of change (innovation, competition, employment) and development. The paper is concluded with a discussion of some items that could usefully be part of an agenda for further research by economic geographers on the evolving spatial and structural attributes of service work and organizations and their impact on cities or regions at different scales of analysis.

Introduction

There are few social science disciplines that have not made reference during the last five years or so to the “new” economy (Weinstein 1997; Beyers 2002; Krugman 1997; Woodrow 2000; Visco 2000; Gadrey 2003).¹ This has resulted in a “vast outpouring of literature that uses the phrase ‘New Economy’” (Beyers 2002, 1). The media have also devoted many column inches to the topic (see for example, Zandi 1998; Meyer 2001; Coy 2001; Madrick 2001; *The Economist* 2000). There are almost as many “takes” on the phenomenon as there are commentators, although there are some common themes. As a result, the meanings attributed to the new economy remain fuzzy and imprecise (Gadrey 2003). These include concerns about whether the new economy is a “reality” or a “fiction”; if it does actually exist is it in some way distinctive from the “old” economy; and con-

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versely, if its existence is acknowledged is it considered no different from the old economy (see for example Webber 1993)? The term “new economy” has been used by business economists in the U.S. since the 1970s, with *Business Week* asserting in the mid-1980s that the U.S. was undergoing the “most revolutionary economic change in a century—the emergence of a ‘new economy’ of services and high technology” (cited in Madrick 2001, see also Woodrow 2000). A rather different explanation is offered by Thrift (2001), who suggests that the new economy has achieved credence via a “cultural circuit” that incorporates the media, management gurus, management consultants, and business schools.

If content analysis is any guide, despite the much earlier use of the term, the notion of a new economy has only rapidly gained momentum since the mid-1990s. There were 1,000 references to the term in the U.S. business press in 1996 alone, compared to a total of 775 references for the decade 1985-1995 (Madrick 2001). In 1999 there were 3,000 references and in the year 2000 there were more than 20,000 mentions of the “new” economy in the U.S. business media. Its emergence as common currency coincided with strongly rising national and international stock markets, founded primarily on the valuations of high technology stocks and the rise of dot-com companies. Economic growth seemed unstoppable, and the peaks and troughs that had featured in the business cycle during the 1930s or the second half of the 1980s, for example, would be smoothed during the 1990s by inexorable improvements in productivity.

From the geographer’s perspective the need for more research on a variety of questions about the emerging “new” economy and its relationship with the declining “old” economy has, for example, been explored by Beyers (2002) (see also Wood 2002). After reviewing some of the key works, he constructs an empirically informed checklist of key research issues that accompany the emergence of a “new” economy. The list is based on spatial dimensions (the geography of production and consumption in the “new” economy) that are a high priority for research, and it includes the location of the key industries that perform a lead role in the “new” economy, the ways in which enterprises are organized, the changing nature of work (and of occupational structures) and how these affect the participation of different places (regions, cities, urban/rural communities), or measurement of interregional and international trade as part of understanding the geography of consumption. While there is much to commend in the research agenda signaled by Beyers, it does assume that as a concept the “new” economy actually stands scrutiny. In this paper it is suggested that perhaps economic geographers should stand back a little from the “new” economy bandwagon to establish whether getting onto it is really going to serve any useful purpose.

Nothing Has Changed?

The notion of a “growth recession” provides a clue to the most widely used definition of the new economy, namely its association with dramatic improvements in labor productivity.² When these improvements begin to slow down, as they have done since the second half of 2001, a growth recession is taking place. Acceleration in productivity instigates an investment boom to take advantage of new profit opportunities provided by technolog-

ical advances and a consumption boom linked to higher growth of labor income and a sharp rise in the value of equities linked to the anticipated higher earnings growth. It could be argued that many of these productivity-related effects are linked to service industries in the sense that many of the beneficiaries are firms in, for example, finance, business, retail, real estate, distribution, and transport services. Investment in information technology (IT) by these service industries has ballooned and has transformed their market coverage, inventory management, market research, client profiling, and numerous other functions that streamline or in some way “improve” the services that they provide.

Sustained improvements in productivity are part of the “new” economy mantra. But historical evidence on trends in productivity in the U.S., for example, suggests that the recent round of improvements are simply a rerun of earlier “new economies.” Thus, over the period 1889-2000 average annual labor productivity growth was 2 percent but there were periods of higher growth (1917-1927, 1948-1973, 1995-2000) interspersed with periods of lower growth between 1 percent and 1.5 percent (Figure 1) (Meyer 2001). While individual observers identify periods of different length, they tend to be labeled either as high- or as low-growth (Gould 1946; Kendrick 1961; Grossman and Helpman 1991; Bluestone 2001). But Gordon (1999, 2000), for example, links the rapid productivity growth between 1950 and 1972 (broadly the same “golden age” of 1948-73 identified by Meyer) to the numerous technological and other innovations introduced during the last quarter of the nineteenth century and the early years of the twentieth century. These include the telegraph, the telephone, the internal combustion engine, radio, television, plastics, and public transport systems, among others. It has been suggested, however, that

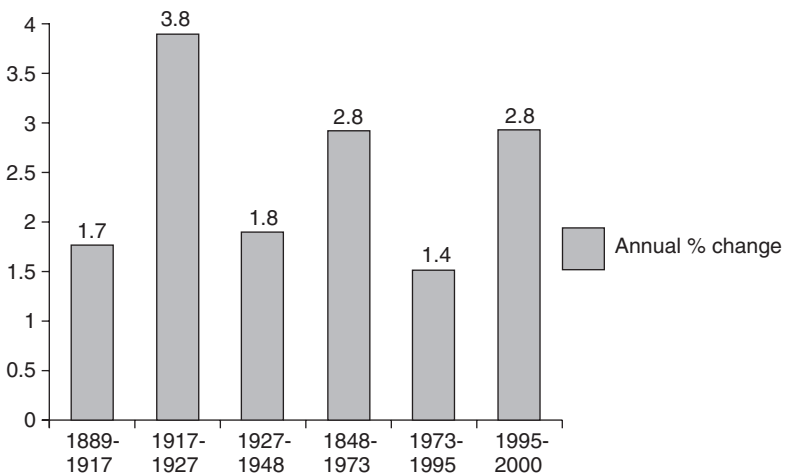


FIGURE 1. LONG-TERM ANNUAL PRODUCTIVITY GROWTH, US, 1889-2000.
 Source: After Meyer, 2001.

many of these innovations had an impact predominantly on standards of living rather than on productivity and economic growth. Others have suggested that the electric motor (dynamo) and, more recently, information and communications technology (ICT) stimulated improvements in production processes (including those of service industries) that were responsible primarily for significant improvements in productivity rather than in the standard of living (David 1990). Perhaps the truth lies somewhere in between, in that while the Internet, for example, has dramatically improved access to all kinds of information and knowledge from widely dispersed databanks and other sources, the surfeit of emails (including “spam”) and ready opportunities for “surfing” have inhibited rather than improved employee productivity.

Yet even if this is the case, the effects are geographically inconsistent. Although economists disagree, productivity has been steadily improving in the U.S. and can, at least in part, be linked with the widespread adoption of ICT. This does not show up in the EU productivity figures where, in line with Solow’s “productivity paradox,” the trend has been downward (Figure 2) (European Commission 2002). A possible explanation is that it is difficult to identify the impact of new technologies on productivity in Europe because they are being introduced or adopted at a time when labor markets are being deregulated, a process that has generated quite strong employment growth, lowered structural unemployment, and encouraged the hiring of less productive workers. This has had a moderating effect on the productivity trend. Differences in the cyclical position of the two economies may also be complicating the comparison, along with the fact that the share of ICT industries in total output is also lower in Europe than in the U.S. It is also possible

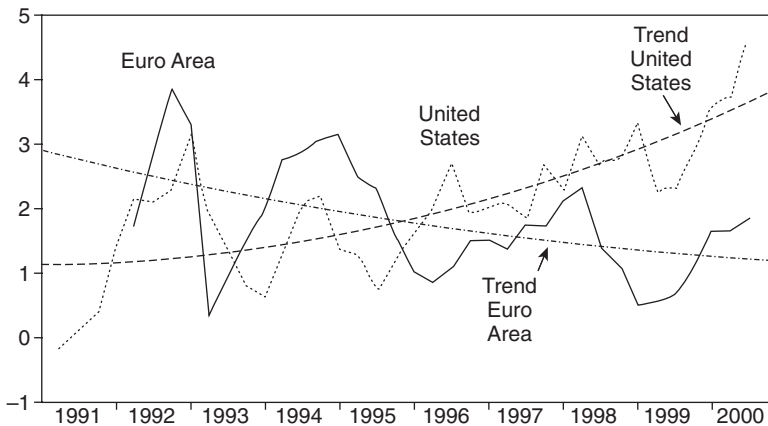


FIGURE 2. PRODUCTIVITY (GDP PER WORKER) IN THE EURO AREA AND THE US (% ANNUAL AVERAGE).

Source: European Commission, 2002.

that measurement problems, exacerbated by the telecommunications bubble and the dot-com boom, have created a misleading picture of the output of U.S. industries during the 1990s (Diewert and Fox 1999).

Historically it seems that when a significant number of innovations occurred together, they triggered high productivity growth spurts in the industries linked with these developments. As the most significant innovation during the 1980s and 1990s, has ICT not deviated from this pattern? Initially, just as was the case with earlier innovations, most of the productivity impacts have been experienced within the same sectors. An example is the high stock market valuations for the information technology sector during the late 1990s which were “disconnected” from those for the economy as a whole. Earlier examples include the initial development of the motor vehicle industry, the U.S. radio station industry, electric utilities companies, and the airline industry. Seaboard Air Lines, for example, was actually a railway company that was one of many that tried to cash in on the rapid growth of airline stocks following Lindbergh’s successful transatlantic flight in 1927. Meyer (2001) sees parallels with the addition of the dot-com suffix to company names in the second-half of the 1990s. In this sense, there is nothing “new” about the economy; it is simply a rerun of what has happened in the “old” economy or as Visco (2000) puts it: “The ‘new’ in new economy should not be taken to mean that there have never been new economies in the past.”³ Significant advances in technology are not the same as changes in the economy. Technology acts as a service or support for those industries and activities that invest in and deploy it; it facilitates improvements in their operating efficiency. This ranges from improvements in sharing information and knowledge within firms to enhanced services to customers or clients. Perhaps what marks innovations in ICT as being different (rather than new?) is that they have, even if rather belatedly and very recently, triggered booms in the broader economy beyond the ICT industries.

Another example of “the nothing has changed” argument, albeit based on manufacturing, is the reawakening of protectionism with the decline of manufacturing as the creator of wealth and jobs. This has happened earlier with reference to agriculture. Every 1 percent fall in agricultural employment/prices during the last century was matched by increases in agricultural subsidies and protection of at least 1 percent and more (Druker 2001). Every developed country responded in this way, including the U.S. Although until recently protectionism in manufacturing tended to take the form of subsidies, anti-dumping measures, and “voluntary” restraints rather than tariffs, the balance is changing as most recently demonstrated by the U.S. protecting what is left of its steel industry by imposing heavy tariffs on imported steel. The EU is now contemplating emergency quotas for steel to prevent its becoming a dumping ground for steel pushed out of the U.S. The ongoing development of regional trade blocs such as NAFTA and the EU has lowered internal tariffs for manufactured goods while at the same time raising tariff barriers against producers outside the trade blocs. In relation to services, the developing economies remain very cautious about opening up their domestic markets to imports or to foreign service providers seeking a direct presence. All kinds of non-tariff barriers remain in place to protect domestic service producers, especially activities such as professional or business

services that require a direct presence in a particular market in order to provide the level of service quality that the host country and any international firm clients located there expect.

ICTs: The Bedrock of the new economy. There are questions about whether the more recent advances in ICT mean that economies somehow now work in a new or different way from that of the past. Yet is the reality that economies continue to work in the way that they always have? Rather than eliminating the sequence of peaks and troughs, communications technology has simply amplified the scope for more frequent fluctuations in the business cycle or in stock market prices as the speed and reliability of data and voice transmission from one location (say a stock market in London) to another (a stock market in New York) have been transformed (Leyshon and Thrift 1997; Laulajainen 1998, 2001). The friction of distance has become much more lubricated than was the case when communications relied on the telephone or the telegraph, although not at the expense of geography!⁴ The sharp decline in the cost of transatlantic telephone calls is a simple example (Figure 3). The intensive deployment of technology in the dealing rooms of banks and securities firms provides a support service, albeit a much improved one, which enables firms to claim some competitive advantage or to specialize even more than before. There is, however, nothing “new” about the service that they are providing; they are simply able to deliver it in ways that have evolved in line with advances in technology. As in the past, corporations continue to be subject to the same rules of the market and will succeed, fail, or be taken over in line with their performance and corporate ambitions.

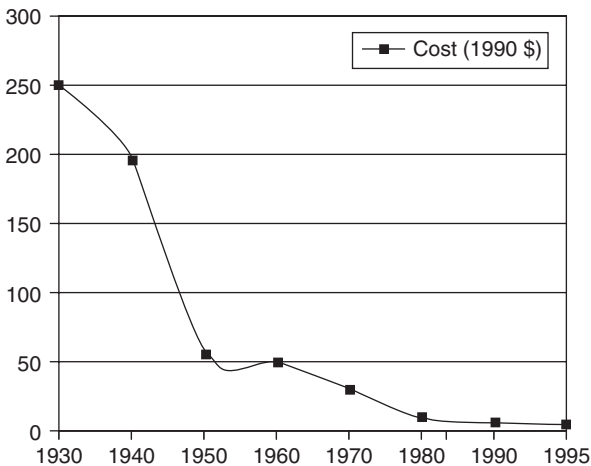


FIGURE 3. CHANGE IN THE COST OF A THREE-MINUTE TELEPHONE CALL FROM NEW YORK TO LONDON, 1930-1995.

Source: World Bank.

Nonetheless, information and communications technologies (ICT) are consistently regarded as the bedrock of the current “new” economy. ICT is seen as the key to economic performance and understanding of the dramatic improvements in productivity in countries like the U.S. between 1995 and 2000 (see Figure 1). It achieves this by encouraging more investment in IT via a fall in component and equipment prices (therefore raising the capital intensity in the broader economy), by increasing the efficiency and volume of its own output in response to competition and market conditions, and via spin-off (that some might describe as core component) effects such as the growth of e-commerce or the expansion of the Internet. The latter are associated with significant organizational improvements and cost reductions for firms, which are passed on to the larger economy as efficiency gains, especially faster expansion of multifactor productivity growth.⁵

However, the introduction of a new technology such as ICT, or indeed some of the earlier technologies such as the dynamo, may cause productivity to slow and therefore reduce economic growth. This is because the development and use of new technology requires adopters to discover the best way to use and apply it to fulfill their business goals. This requires time, and learning from experience, and results in the “productivity paradox” which was first noted in the 1970s following the introduction of computers suitable for use in commerce, business, and other sectors of the economy (see for example Brynjolfsson 1994; Brynjolfsson and Hitt 1998; Triplett 1999; Andersen et al. 2003). It was fully expected that demand for workers would decline while output and productivity would grow; in practice there was a restructuring of the labor force that required retraining and the appearance of completely new occupations such as computer programmers and data processing specialists. Not only did firms need to invest in (relatively) expensive hardware and software but they also had to cover training and retraining costs, as well as implementing organizational changes such as the establishment of new computer data processing centers (in banking and in insurance services, for example).

Are Services the Key Distinction Between the “Old” and the “New” Economy?

Importance of changing conception of services? In order to evaluate the relationship between services and the “new” economy it is necessary to recall the way in which they are conceived as part of the “old” economy. They were very much a residual category of economic activity in the latter; anything which could not be classified as manufacturing or primary activity was a service activity (see for example Delauney and Gadrey 1992). This position was also justified in terms of services as invisible and intangible inputs to other material products that were largely supplied on a stand-alone basis rather than in an integrated, horizontal fashion. Services were largely produced and consumed simultaneously and most were not regarded as tradable, whether within or between national economies (Hill 1977; Barcet 1991). The way in which services are viewed in the “new” economy has evolved somewhat because ICTs, in particular, have had an impact on the ways in which they are, for example, produced, consumed, or traded across borders. The

widespread adoption of ICTs has also influenced the cost structure and relative competitiveness of firms and entire industries (OECD 2000). The rapid rise of e-commerce (both consumer-to-business and business-to-business) is changing the ways economies function by making technology, information, and know-how more accessible than ever before: The skills and expertise embodied in human resources can be sourced from many more places around the world, production can be integrated across many different time zones and borders, and information on designs, costs, markets, etc. can be shared widely and more or less instantly. The Internet, which is the backbone for e-commerce, e-government, and e-business, is pivotal to these developments and services are prominent in a number of ways. It does, of course, present both opportunities (new and enlarged markets, more cost-effective procurement) and pitfalls (rogue traders, security of personal and other information) (Berners-Lee 2000; Tapscott et al. 2000; Atkinson 2001). This has led Giarini (2001) to postulate the “horizontalization” of services, whereby it becomes increasingly difficult to treat them as discrete activities but as part of a more integrated production system, often built around ICTs, spanning manufacturing, services, and even the primary sector (Engelbrecht 1992; Daniels and Bryson 2002). As a result the boundaries between the “old” economy and the “new” economy, between goods and services, and between tradable and non-tradable goods and services are becoming more difficult to identify and measure by statistical agencies (Hill 1999).

Job growth in the new economy is largely linked to service-producers. In whatever way is chosen to measure it, there is no doubt that economies are undergoing change, and shifts in occupational structure are often cited as a key indicator (Table 1). But there is nothing “new” about such shifts in occupational structure. In the twenty years between 1988 and 2008 the U.S. Bureau of Labor Statistics anticipates that blue-collar occupations, such as operators, fabricators, and laborers, will have declined from 14.2 percent to 12.7 percent of the labor force, while professional occupations will increase their share from 12.5 percent in 1988 to 15.6 percent in 2008 (or almost one in six of all occupations). Female labor force participation rates have also increased significantly since 1970 (Table 2), from 50 percent to 67.5 percent in the UK by 2000 or from just below 50 percent in the U.S. to 72 percent. The share of total population enrolled in tertiary education between 1970 and 1996 has risen significantly in developed and less developed economies (Table 3) as one response to the changes in labor market requirements signaled by the restructuring of occupations (see Table 1). Such changes in the occupational order have of course been encouraged by the revolution in ICT, leading organizations such as the Progressive Policy Institute (<http://www.ppi.org>) to develop methods for classifying the U.S. states on the basis of the extent of the restructuring and reshaping of their economies in accordance with the tenets of the “New Millennium Economy.” A similar approach has been used for metropolitan areas using a new economy index (<http://neweconomyindex.org>) (Atkinson and Gotlieb 2001). Even the language of the “new” economy has evolved in a way that is intended to suggest that there is something new going on (Table 4).⁶ A more detailed “new economy schema” that contrasts the old and the new in relation to four issues

TABLE 1. CHANGING STRUCTURE OF OCCUPATIONS,
UNITED STATES, 1988-2008.

Occupation	Share of all occupations (%)	
	1988	2008
Executive and managerial	10.3	10.7
Professional	12.5	15.6
Technicians	3.2	3.8
Marketing/sales	10.3	11.0
Administrative support	18.5	16.6
Services	15.5	16.4
Agriculture	3.5	2.8
Production, craft and repair	11.9	10.5
Operators, fabricators, and laborers	14.2	12.7

Source: U.S. Bureau of Labor Statistics.

TABLE 2. FEMALE LABOR FORCE PARTICIPATION RATES
(%), SELECTED COUNTRIES, 1970-2000.

Country	Female labor force participation rate (%)	
	1970	2000
UK	50.0	67.5
France	48.0	62.5
Japan	55.0	64.0
United States	49.5	72.0

Source: OECD.

TABLE 3. TOTAL POPULATION ENROLLED IN TERTIARY EDUCATION (%), SELECTED COUNTRIES, 1970-1996.

Country	Population enrolled in tertiary education (%)	
	1970	1996
UK	1.08	3.25
China	0.49	0.49
France	1.58	3.54
India	0.44	0.65
Mexico	0.49	1.76
South Korea	0.69	5.65
United States	4.14	5.37

Source: UNESCO.

TABLE 4. TRANSFORMATION OF "OLD" TO "NEW" ECONOMY JARGON.

1991 ("Old" economy)	2002 ("New" economy)
Voluntary redundancy	Involuntary career event
Rising unemployment	Falling employment
Manufacturing meltdown	Global meltdown
Unemployed	Self-employed
Between jobs	Between projects
Downsizing	Rightsizing
Early retirement	Long-term sabbatical
Laid-off	Furloughed
Life-long careers	Life-long learning
Firing	Negative hiring

(economy-wide characteristics, business, consumers, government) performs a similar function (Coyle and Quah 2002).

In a thoughtful analysis of the “myth” of the new economy, Gadrey (2003) suggests that the idea that employment in services has dominated growth during the last decade is overstated. He focuses in particular on the U.S. economy where employment growth rates were actually higher in the “old” economy that prevailed prior to the 1990s. This is borne out by some comparative data for six leading OECD countries between 1988 and 1998 (see also Beyers 2002). Service employment as a proportion of total employment certainly rose steadily during the late 1980s and the early 1990s, notably in Canada, France, the UK, and the U.S. (Figure 4). There are indications, however, that from the mid 1990s onward, when the “new” economy was supposedly getting into its stride, the increase in the share of service employment in total employment has been slowing down and the curve is leveling off.⁷ Even Germany, which started from a lower baseline in the early 1990s, reveals a similar pattern, although it is still some way behind its major competitors such as France and the UK. Not only have the annual changes in service employment been declining, they are also converging, so that by the later 1990s all the leading OECD economies were recording annual rates of less than 1 percent (Figure 5).

At a more parochial level, the job losses in the UK during the first nine months of 2001 reflected this trend; reductions in excess of 800,000 jobs left few occupations untouched, from factory workers, investment bankers, call-center workers, and hotel maids, to management consultants (Figure 6). It seems that the historical tendency for service

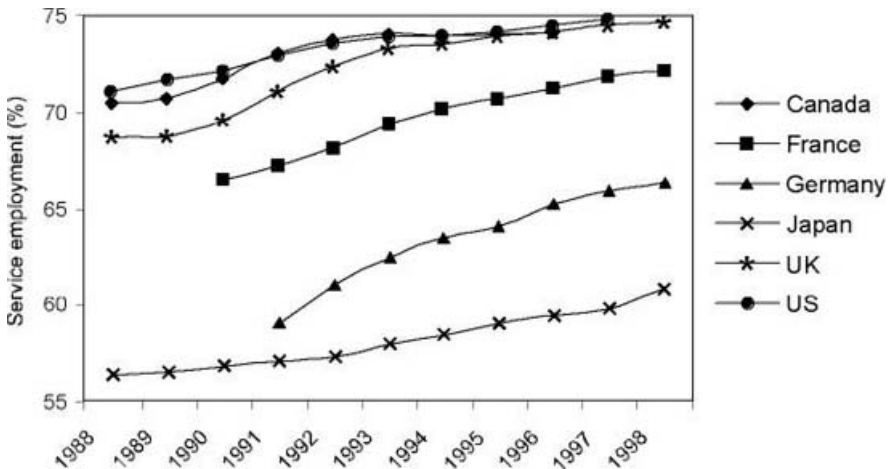


FIGURE 4. SERVICE EMPLOYMENT SHARE (%) OF TOTAL EMPLOYMENT, SELECTED OECD COUNTRIES, 1988-1998.

Source: Compiled from OECD data.

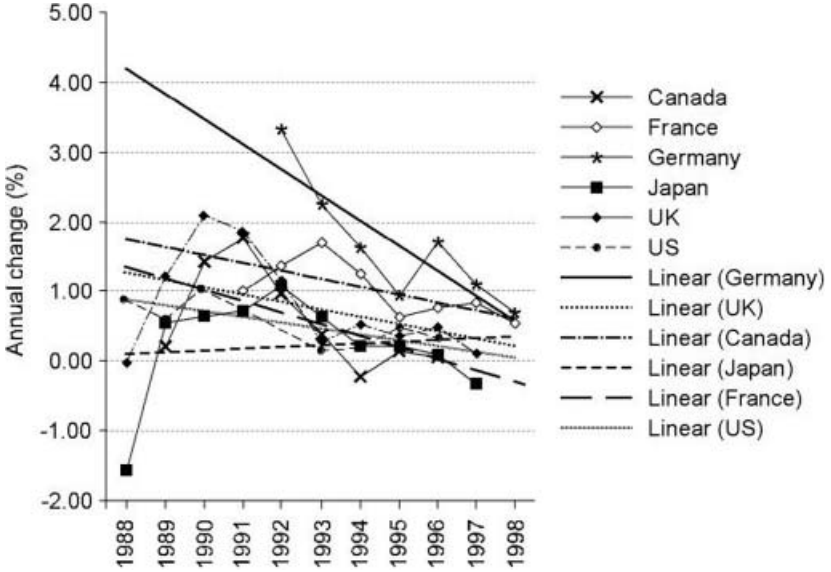


FIGURE 5. TREND IN AVERAGE ANNUAL CHANGE, SERVICE EMPLOYMENT, SELECTED OECD COUNTRIES, 1988-1998.

Source: Compiled from OECD data.

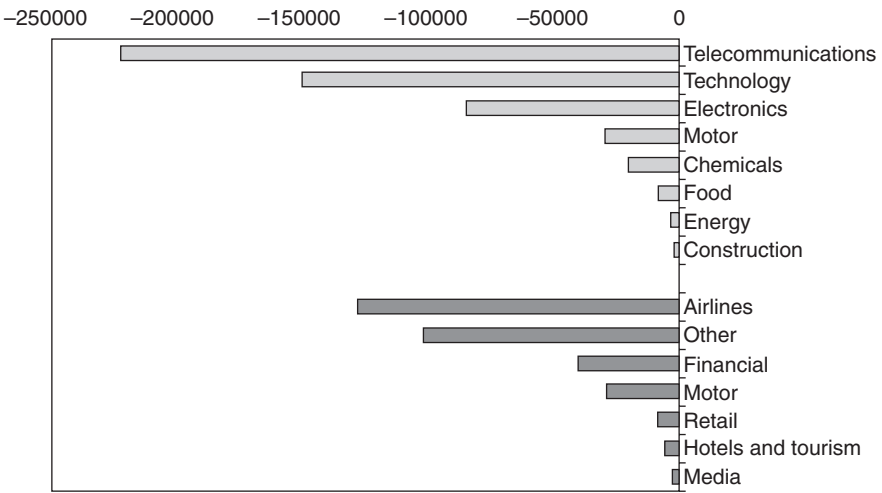


FIGURE 6. JOB CUTS, BY SECTOR, UK, JANUARY-SEPTEMBER 2001.

Source: *The Times*, 21 October 2001.

industries to weather downturns in the economy better than manufacturing now rings less true. Perhaps the “vulnerability” of service firms has increased in line with their much larger share of economic activity, or more of them are becoming more difficult to sustain in markets saturated with services. During the first nine months of 2002, the UK regions have continued to experience job losses, primarily in manufacturing, but the city of London is also expected to have lost 30,000 jobs (almost all of them in business, professional, and financial services) by early 2003. This is some 10 percent down from the peak of 334,000 jobs in 2000 (Smith and Waples 2002). This may be “new” but it is not the first time that it has happened. One response to this phenomenon has been to label it as a “new economy growth recession” (Meyer 2001).⁸

Global dimensions of the “new” economy and services. At a different scale, if the “new” economy represents something different from the “old economy” it should be reflected in the evolving international regimes for service trade and investment; these will need to accommodate innovations in services and in the ways in which they are produced and consumed (Woodrow 2001). The context within which the internationalization of services is taking place is highly dynamic and the trade policy implications of the new economy have hardly begun to figure in discussions (Sauvé 2000; Riddle 1999).⁹ Clearly, if the “new” economy is “real,” measurement of its size and boundaries is a vital prerequisite to an informed discussion of its policy implications, including trade policy.¹⁰ It has already been suggested that ICTs have contributed much to its development but “if governments cannot adequately measure output, sales or cross-border trade in many of the sectors—especially services—where ICTs are important, it will likely be difficult for them to document the full potential of the new economy” (Muyllé 1999, 8).

Meanwhile, the General Agreement on Trade in Services (GATS) is the system which shapes services trade and foreign direct investment (FDI). Its role in relation to the latter is particularly crucial because FDI is often the only way for services to effectively compete in a market, and stability is critical for effective long-term planning. The first round of GATS negotiations largely pre-dated the ICT revolution and the “new” economy and it is not clear that the new round of negotiations from Doha onward recognizes the changes that are occurring (even if the idea that they represent a “new” economy is contested). Yet there is general agreement that a more open regime for services generally will do much to enable countries, firms, and skilled workers alike to take advantage of, and to spark, further development of the new economy. The developed countries and the major players such as the U.S. and a number of European countries certainly stand to gain a great deal.¹¹

ICT applications lie at the heart of many of the fastest growing components of services trade. In 1990 world exports of office and telecoms equipment rose by 10 percent to nearly U.S. \$770 billion, well ahead of the overall rise in commercial services exports of 1.5 percent (WTO 2001, 2003b). Many of them will feature prominently on the liberalizing agenda of the current GATS round which commenced in early 2000 and have been incorporated into the World Trade Organization (2001) on international trade negotiations. These include energy services, environmental services, audiovisual services, express delivery, the professions, private education and training, private healthcare, travel, and tourism.

Similarly, the cluster of services that underpin, electronic commerce, advertising, computer and information services, distribution, finance, and telecommunications, as well as the movement of highly-skilled people, will also be a major focus of the discussions.

The sense that the “new” economy is a recognizable phenomenon in trade terms may only materialize when the challenges of regulatory convergence and international regulatory cooperation posed by international e-commerce have been resolved. The issues for international e-commerce are wide ranging and include data privacy; encryption technology; the development of secure payments systems; protection of intellectual property; strengthened systems of prudential supervision; and finding the right balance between industry calls for a right to non-establishment, and government concerns over the need for local presence, requirements for consumer protection, or tax collection purposes. These are very much “new” economy issues that may not be readily addressed through “old” economy solutions.

FDI, the new economy, and services. Trade in services is often dependent upon direct investment that achieves the presence required to enable a particular service (such as banking, auditing, or corporate legal advice) to be provided in the way that clients expect. This is very much an “old” economy requirement that has not been modified by the appendages of the “new” economy such as ICTs. Worldwide services FDI, valued at \$210 billion in 1994 (60 percent of total FDI), increased dramatically in the late 1980s and into the 1990s (UNCTAD 1998). The sectoral composition of total outward FDI has been inexorably shifting toward services. The average share was in the range of 35-45 percent in the mid-1970s, increasing to an average of around 50 percent in 1990 and as high as 67 percent in the case of Japan. This coincided with the growing international ambitions of service firms in one nation to serve markets or clients in another nation by integrating their operations across borders by trading intermediate goods and services (Dunning 1993; McCulloch 1996; Stern 2001). The cumulative result of this shift is that approximately 60 percent of the world’s total stock resulting from FDI is in services; distribution, professional and technical services, and financial services are most prominent. The most important single factor behind the increase in FDI is cross-border mergers and acquisitions (M&As), with services accounting for 60 percent of the transactions (by value) in 1999 (up from 31 percent in 1987) (UNCTAD 2000). There has also been an upsurge in M&As activity by services within Europe, associated with an increase in cross-border operations in services (Muylle 1999). Indeed, the structural and dynamic characteristics of the world economy are increasingly driven by FDI (assisted by ICTs) that is closely linked with financial flows, technology transfer, and international trade in services, as well as goods. This is demonstrated most clearly by the expansion of activities such as downstream services (where FDI in dealer networks and after-sales services are often necessary to promote sales), or financial services (where the overseas activities of home-country clients often prompt FDI by their service providers). Whether these changes are a function of a “new” economy is a moot point.

Conclusion and Further Research

It is now apparent that much of the confidence surrounding the inexorable growth associated with the new economy was misplaced. The expansion of the U.S. and many other economies has slowed down; many dot-coms have failed; merger and acquisitions activity has stagnated; foreign direct investment has declined sharply (UNCTAD 2003); venture capital has become hard to obtain; and confidence in corporate governance is undermined by Enron, WorldCom, and other cases. The Japanese stock market fell to its lowest level since 1982 in early October 2002, reflecting continuing uncertainties about the economy of its main trading partner, the U.S. The tragic events of September 11, 2001 in New York and Washington exacerbated an already extant downward trend in most of the world's economies. No one would want to deny that there have been, and continue to be, ongoing changes in our economies and that many are now “a service economy supported by goods and service producing sectors” (Beyers 2002, 28; see also Miles 2001). It remains debatable, however, whether they can be characterized as symbolic of a “new” economy.

While the concept of a “new” economy is contested, there is perhaps more widespread support for the view that economic change is increasingly shaped by the behavior of service firms. This generates much for economic geographers to contemplate as the basis for an evolving research agenda. Tickell (2002, p. 797) refers to the remarkable “resilience of research on the service economy”; this may be so but what he does not make clear is that this resilience is patchy and in no way matched by a range and volume of research output that equates to the prominent position of service activities in many economies for at least the last twenty-five years. However, the situation may not be as bad as it seems. There is now a growing recognition that services and manufacturing have become much harder to compartmentalize as discrete sectors. Value-based services such as CAD (computer-aided design), R&D, data processing, or just-in-time systems, to name but a few, are integral to the manufacturing process to the extent that the non-material exceeds the material element. This has not gone unnoticed in the past (see for example Marshall 1982; Englebrecht 1992; Davies et al. 2001) and was almost certainly happening, albeit in a more low-key way, at a time when the “old” economy was still the *modus operandi*. If this is the case, then perhaps there has actually been some unwitting research with a services orientation under an industrial or a manufacturing rubric. At the risk of undermining a personal research agenda that has been constructed around exploring aspects of services (especially advanced services) in urban and regional development, this then begs questions about the veracity of sketching the components of a research agenda that treats services as a discrete category of economic activity. Should an organizational taxonomy continue to be used to analyze processes or even to construct theories of service production that seem less and less robust? For example, it is now even more difficult to measure and interpret trade flows (whether within or between countries), the structure of foreign direct investment, or the nature of markets for services. At this stage, however, and for the want of a viable alternative, it will suffice to persist with service industries as the target category for research.

In many ways the comprehensive set of key service research issues related to the emergence of the new economy enunciated by Beyers (2002) is hard to supplement. This is consolidated by Wood (2002) who advocates more research on the productivity paradox, the relationship between service productivity and competitiveness, and reinforcement of the role of metropolitan regions in polarizing regional wealth. Both agendas, as Wood notes, incorporate elements of the “old” (or reinvigoration of earlier research themes) as well as research questions derived from the “new.” It is possible to detect in both agendas the particular geographical and thematic interests (such as producer services) of each researcher and this is understandable if the argument that the service sector is “too diverse to review and summarize” (Tickell 2003, p. 797) is extended to include the problem of formulating a research agenda.

Nevertheless, it is possible to add some additional research themes to the Beyers/Wood portfolio. There are at least two “big issues.” The first, which has perhaps attracted little attention but is nonetheless interesting, concerns the evolution of employment in service economies, or perhaps, in more general terms, the “end game” for transformation processes in economies. Industry and occupation projections of the kind published by the Department of Commerce (U.S.) or the Office for National Statistics (UK) anticipate further expansion of service-producing activities, including a substantial redistribution toward high-skill, knowledge-intensive service occupations. Meanwhile, the share of manufacturing in total employment (or its contribution to GNP) is expected to continue to decline. It is well known that manufacturing activities are increasingly dominated by service-related occupations and that there are blue-collar occupations within service-producing firms. Such is the blurring of the services/manufacturing dichotomy. But does it matter as long as GNP continues to grow and the economy remains competitive? If it does matter, perhaps because output from manufacturing is still regarded (rightly or wrongly) as the cornerstone of a successful economy, then there must be questions about whether there is an equilibrium distribution of economic activity and employment, especially in the developed economies. Is it possible to conceive of situations where most, if not all, occupations are classified as services? What will this mean for the spatial pattern of economic activities or for the communities based on “old” economy industries that are already struggling to adapt to the knowledge economy? What of patterns of national competitive and comparative advantage? Might global regions specializing in resource, manufacturing, or service-based activities be envisaged in the way that to some extent already typifies the respective functions of the U.S./EU and the Asia-Pacific regions? What will be the consequences for the supply of, and demand for, the hard (buildings, roads, airports, railroads, etc.) infrastructure and the telecommunications infrastructure that underpins the local, national, or international function of such economies? The sustainability of “services-only” economies will be reliant on their capacity for service innovations but, while there has already been some research on the nature of innovation in services, the systems and processes supporting efficient and profitable service innovation, which include access to suitable human resources, training capacity, and knowledge/information (much of which is spatially differentiated), will require more research.

A second major research theme revolves around the impact of information and communications technology on service work, organizations, cities, and regions at a variety of scales. At the international scale, as the prices of computers continue to fall and the capacity of desktop, and especially laptop computers, continues to improve (almost exponentially it seems) to allow communication via the Internet, satellite communications, and fiber optic networks, producer service firms and workers face new challenges that call into question “traditional” assumptions about the structure of organizations or the relationship between space and location. The extended reach of a deepening global communications infrastructure (ICT and transport services) has caused the deconstruction of supply and value chains in ways that were unimaginable even ten years ago. These are now much more “fluid” and require service firms to constantly revisit their (location) strategies, structures, and even identity. Identities formerly based on associations with “flagship” or trophy office buildings in major cities, for example, must now be matched with a strong and distinctive Web-based identity and image. Advanced business and professional service firms are now, in part, rated by the user-friendliness of their Web pages, the “image” that these pages convey, or the information and knowledge that they make available in the public domain. This is but one symptom of a transformation from a “tangible” to a “virtual” service corporation in which production, and especially certain kinds of service support and delivery, are still rooted in places and need to be analyzed as such, but are much more footloose, on the one hand, yet more concentrated, on the other. The spread of ICT may allow some regions/economies to move almost directly from being capital-intensive to knowledge-intensive (in effect bypassing the industrialization stage of economic development). How will this shape the evolving geographies of international service production at the global region level (Asia-Pacific, post-socialist economies, south Asia) as well as the growth and location of service transnational corporations (TNCs)?

The reach of service support and delivery functions has been transformed by ICT to the extent that developing countries are being drawn into the growing number of corporate global production networks (Morgan 2001; Coe 2002). This is beginning to pose questions about the hegemony of the developing economies as centers of service production and consumption. The comparative advantage of economies such as India, Indonesia, and China in labor costs, and the availability of a well-educated and skilled labor force are attracting a growing number of the virtual operations (data processing, service centers, technical support, software production, payroll management, etc.) of service TNCs as well as outsourced functions sub-contracted to specialist firms in these countries (Baker and Kripalani 2004; O’Connell 2003). All the indications are that this resource-oriented internationalization (Roberts 2002) will accelerate, leading to some interesting questions about the challenges that these processes present to structure and organization of service firms as well as, on the one hand, the (developed) economies that are losing service work and, on the other hand, the (developing) economies that are attracting new service work. In the case of the former, what kinds of service firms are involved in directly shifting some of their functions to other countries? Where international outsourcing is the preferred strategy, what functions are involved and which types of service firm are affected? What is

the displacement effect on source country service employment, and which places are most at risk? For example, if call center functions are relocated, it is more likely that non-metropolitan, economically disadvantaged, peripheral areas (those that can least afford the service job losses) will be disproportionately affected. What will be the service job replacement needs and what local or national policies will be needed to achieve them? The short-run benefits for the recipient economies will be significant, but virtual corporations and virtual outsourcing will inevitably enable service functions to leapfrog between economies to take advantage of the appropriate comparative advantages. India has recently proved an extremely attractive destination for a wide variety of relocated and outsourced service work, but it is already concerned about the upward drift of, for example, local wages and the attraction of lower wage economies such as China for similar kinds of service firm investment. It hopes to curb the potential for relocation by raising further the quality of facilities or the training and retraining support services for knowledge workers; alternatively it will seek to attract higher order service functions to replace those displaced to lower cost locations.

The global redistribution of service work is but one symptom of the internationalization of services. This has attracted a good deal of research effort by economic geographers who have tracked the patterns of international location and expansion of service TNCs, the drivers involved, the differences between types of service firm, and the relationship of these developments with the network of global cities, especially the triad of London, New York, and Tokyo. Less well understood is the extent to which the trend toward increasing internationalization of advanced business services will extend the global networks of service production and consumption to incorporate a more obvious role for second- or even third-tier city regions that, in many cases, offer knowledge and skills at least as good as those available in the premier global cities but at lower cost and in superior working and living environments (Daniels and Bryson 2003). The rise of the virtual service firm and the opportunities for virtual collaboration among firms and individual service workers with access to the Internet and other technology are reinforcing these opportunities.

There are also numerous smaller, but not necessarily less interesting, research questions. First, against a background of growing fragmentation in the production and delivery of service work that is linked, yet again, to the opportunities provided by ICTs, there remains much to learn about the impact of home or remote working (10 percent of service workers in the UK) on the balance between the centralization and decentralization of service activities. Grimes (2003) has recently shown that throughout the European regions the digital divide between urban and rural areas remains as wide as ever because of significant barriers to low-cost Internet access in most rural areas. The idea that e-commerce can become a reality for the service micro-enterprises (SMEs) in rural areas that are aware of its potential and would like to use it is far from realistic. If the economic cost of supplying the infrastructure to these locations within developed economies is an obstacle, then the prospects for rural areas in the less developed economies must be even bleaker. Second, whatever the evolving role of global versus lower level cities as agglomerations of service

production and work, there are some interesting questions about whether and how land uses and the form, function, and location of the buildings that accommodate services (offices, warehouses, retail, hospitals, etc.) will adapt to the new service economy and over what timescale. These topics have been somewhat neglected since the mid-1980s by the justifiable enthusiasm for the more macro-scale topics of the kind already mentioned. While the anticipated demise of the skyscraper office building or of downtown office agglomerations has not materialized, there is no room for complacency. Their time may yet be limited as newer generations of business leaders, entrepreneurs, and workers, better able (conditioned through education and experience) to work with and to utilize the spatial and temporal flexibility offered by ICT and communications more generally, abandon the “old” economy model of service location and build form for a more dispersed, networked, virtual “new” economy model. A select subset of very high order service functions may still hanker after the accessibility or face-to-face contact opportunities of a downtown location; for everybody else telephone and video-conferencing, for example, will be more than adequate substitutes. Third, there are ongoing and interesting questions about the actual and potential impact of e-commerce (business-to-consumer and business-to-business) on the spatial organization of distribution systems, on the growth and spatial configuration of “traditional” retailing, or on patterns of transport demand (freight services, personal travel). Fourth, and related, much emphasis has been rightly placed on the relationship between the production and the consumption of services; personal self-service has frequently replaced services provided elsewhere or by others (computerized convenience goods kiosks, home entertainment systems, gas stations, bank ATMs, dial-up telephone bank statements, computerized travel and accommodation reservations, internet loan applications); and email has encouraged individuals to substitute their labor for that previously undertaken by others (clerks, secretaries, personal assistants). These are just a few of the consumption-side developments, and while their consequences for the organization and operation of services has received some attention, there is undoubtedly scope for further research with a particular focus on the consequences for the role and structure of service employment and output in the economy and the ways in which it is reflected in its spatial organization.

The development of an agenda for research by economic geographers on the evolving spatial and structural attributes of service work and organizations and their impact on cities or regions at different scales of analysis is certainly to be encouraged. The topics suggested here merely supplement the list compiled by Beyers and by Wood; they are certainly not exhaustive. Some prioritization of these research themes might help to move the agenda forward, but perhaps another challenge is how to swell the relatively small band of researchers across the various disciplines who are active in services research so that there are some real inroads into our understanding of service worlds (Bryson et al. 2004).

NOTES

1. Seminars such as those funded by the Economic and Social Research Council (UK) on Geographies of the “New Economy” (2001-2003) see <http://www.ges.bham.ac.uk/research/>

human/neweconomy/abstract.htm; the ESRC Seminar on Work, Life and Time in the New Economy (2002-2004), see <http://www.lse.ac.uk/worklife>; or The “New Economy” and Post-Socialist Transition (2003), see <http://www.tiger.edu.pl/english/konferencje/main.htm> testify to a strong current interest.

2. Productivity expressed as output per hour is one of the most important determinants of economic well-being and is closely related to real income per capita.
3. It is worth pondering the fact that the invention of the printing press in the 1540s was accompanied by talk of a new economy. The wider accessibility to the telephone during the early 1890s was also heralded as creating opportunities in a new economy, followed by similar ideas following the invention of the radio in the 1920s. Computers continued the sequence during the 1970s, followed by telecommunications and the widespread interlinking of computers during the 1990s.
4. It remains the case that those workers most deeply embedded in the ways of the cyber economy (emails, video conferencing, telephone conferencing, etc.) continue to complain that they spend too much time traveling to and from meetings (or in meetings). This explains why cities like London, New York, or Singapore that are essentially “service” cities will remain preeminent in the twenty-first century international economy.
5. Multifactor productivity (MFP) growth is that part of economic growth not accounted for by the increase in the quantity and quality of labor and physical capital used in the production process.
6. The term itself may already be passé in that the “real-time economy” is upon us (*The Economist* 2002, see also Thrift 2001).
7. Statistics published by the U.S. Bureau of Labor Statistics show that “high technology service” jobs fell by 4 percent (or 144,600 jobs) to 3.52 million during 2001-2002; software-related jobs declined more slowly at 0.4 percent (9,300). During the same period manufacturing jobs in the ICT sectors decreased by 20 percent (400,000) to a total of 1.62 million.
8. A “growth recession” refers to a period of below-trend growth during which the unemployment rate rises. It does not fit well with the UK experience; the unemployment count was at a twenty-seven-year low in October 2002, either because more people were in part-time jobs or, in the case of London, because those losing jobs have tended not to register as unemployed (preferring to live off savings and redundancy payments).
9. A symptom of this is the increasing disjunction between the ever-shorter product cycles typical of many firms trying to compete in global markets and the lengthening negotiating agenda that governments must contend with as the international trade agenda penetrates deeper inside national borders and touches issues that are domestically sensitive (in a regulatory sense). This may encourage the private sector to search for non-governmental routes to market access.
10. For example, according to the data published in *Fortune* (2003) almost 300 of the top 500 companies in the world are service companies, and the majority of these are controlled from the U.S., Japan, France, Germany, and the UK.
11. It is worth noting, however, that world trade in commercial services is estimated to have decreased by 1 percent to U.S. \$1.44 trillion in 2001. This is the first decline of world commercial services exports since 1983. It affected all services categories and all the major regions, not least exports of other commercial services, the largest category of internationally traded services with strong links to ICT (including communication, insurance, financial services, and royalties and license fees), which stagnated in 2001 (WTO 2003a).

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